



**Quarterly Report for the period of
July 1 – September 30, 2001**

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**GEORGIA LAND MARKET DEVELOPMENT
COOPERATIVE AGREEMENT No. 114-A-00-01-00111-00
BETWEEN
THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
AND
TERRA INSTITUTE**

This report comments on the status of the Cooperative Agreement (CA) through completion of Work Program #2 (July 1 to September 30, 2001). It also indicates key linkages between Work Program #2 accomplishments and tasks to be undertaken during Work Program #3 and subsequent periods.

1. TERRA INSTITUTE RESPONSIBILITIES AND ACTIVITIES:

The following work has been accomplished on the various responsibilities, activities and targets as specified in the Cooperative Agreement (CA) between The United States Agency for International Development (USAID) and Terra Institute. (Month #3 - July; Month #4 - August; and Month #5 - September, 2001.)

Annex A provides a graphic representation of the Project Timeline, which includes Terra Institute and APLR "Targets" for Georgia Land Market Development Project, as well as highlighting actual "Targets Achieved" and any changes that may have been made to the timeline. Annex B provides a graphic representation of the targets for the registration of parcels and issuance of certificates for said parcels during the life of the project and the actual numbers for Work Program #2.

1.1 Financial Management Capacities:

Continued strengthening of the APLR's financial accounting capabilities has been achieved in the following ways:

--ORIS financial accounting software, acquired during Work Program #1, is being integrated into the APLR accounting system, and financial office staff newly hired in July were trained in its use during the July to September period.

--The use of newly created, pre-numbered administrative forms has been made a routine part of APLR financial operations.

--The Auditing Corporation of Georgia (ACG) continued its pre-audit review of APLR financial transactions. ACG has been and will continue to prepare monthly reports to Terra that identify any weaknesses in the internal administrative controls of the APLR. The recommendations of these reports are being implemented by APLR.

--Review of the provisions of the APLR's draft ***Financial and Administrative Procedures Manual*** is continuing. The draft manual provides the basis for the ACG's pre-audit services. The ACG has made suggestions for the improvement of this Manual, and new procedures and related text are being drafted as the need arises.

--Support provided to APLR by ACG, as well as the direct support provided by Terra's administrative staff, will help assure that legal and contractual requirements are satisfied, as well as A133 Auditing Standards requirements and the accounting and tendering procedures of Georgia. The monthly reviews and resulting reports prepared by ACG will help satisfy audit requirements, and will assist the APLR in acquiring the financial, management and procurement skills needed.

Targets of the CA:

- 1.1.1 APLR accountant prepares accounting report independently by the end of Month 8.

Status: The APLR Financial Officer successfully and independently prepared the monthly accounting report for September (Month 5), thereby achieving this target three months ahead of schedule.

ACHIEVED

- 1.1.2 APLR Operations Manual completed by Month 10

Status: Substantive review and revision of the draft version of the Manual continued during Months 3-5.

- 1.1.3 Administrative procedures audit by Month 12

Status: An administrative procedures audit was completed and finalized before the end of Month 2.

ACHIEVED

1.2 Revenue Supply, Financial Monitoring and Contracting:

Provision of banking service to accept USAID provided funds from Terra, supply operational funds to the APLR, contract with foreign experts, and monitor financial practices and

reporting by APLR. This service will be provided directly by Terra Institute with assistance by financial and administrative-procedures experts.

Targets of the CA:

1.2.1 APLR sub-agreement with Terra by Month 1

Status: Subagreement was signed on 11 May, 2001, Month 1 of the project.

ACHIEVED

1.2.2 APLR bank accounts opened by end of Month 1

Status: The APLR has opened in May, 2001 a US Dollar account and a GEL account in the TBC Bank, for exclusive use in the administration of funds advanced from Terra to the APLR.

ACHIEVED

1.2.3 APLR procedures for reporting on monthly expenditures and reconciliation of accounts by the end of Month 1

Status: Four monthly financial reports were defined and tested during Month 1: 1) A “no-pay invoice” classifying the APLR’s expenditures under the sub-agreement by budget item, showing the accumulated expenditures, any credits received, and work program budget balances; 2) a “reconciliation” report showing the beginning month balances, any transfers or program or interest credits during the month, the total expenditures during the month, and the end of month fund balances; 3) a ledger of all transactions during the month; and 4) a running balance of the overall budget under the agreement with Terra Institute.

ACHIEVED

1.2.4 Terra-identified financial advisors in place, end of Month 2.

Status: An agreement with the ACG was developed and signed on 30 June 2001, for that company’s auditors to perform “pre-audit” reviews of all APLR financial transactions to assure that the documentation and reviews of these transactions are in accordance with the APLR Procedures Manual and with the requirements of Terra Institute’s agreement with the APLR.

ACHIEVED

1.3 APLR Capacity Building:

Provision of advice and support to the APLR to increase its operational, management and administrative capacity. This advice and support will be provided directly by Terra Institute short-term expertise as needed, and by NGO (Non-Governmental Organization) development specialists.

Targets of the CA:

1.3.1 Confirmation of APLR organizational structure end of Month 3

Status: The revised Charter of the APLR was completed in August (Month #4) and made available to the Board of Directors and membership for review and comment. The Board convened the Annual Meeting of Members in Month 5, at which time the Members voted to adopt the revised Charter, and proceeded to elect a new Board of Directors, confirm the appointment of the Association's Director, and elected an operational Review Committee to advise the Board and the senior management of the Association. Subsequently, during Month 5, the new Board of Directors met to elect its Chairman, and to organize itself to carry forward a program of membership expansion, and the development of a strategic plan for assuring the technical strength and financial sustainability of the Association over the coming years. As a result of these actions, the organizational structure of the APLR has been clarified and confirmed, and the foundations for sustained organizational growth over the coming months and years have been put in place.

ACHIEVED

- 1.3.2 NGO/SRO (Non-Governmental Organization/Self-Regulating Organization) Development advisor report on the status of the APLR by Month 3.

Status: During his July TDY, Robert Cemovich drafted an Action Plan after consultation with APLR management and staff. The Action Plan outlined the appropriate steps to reorganize the APLR in order to meet the challenges of growth, and the need for financial sustainability. The Action Plan advised the APLR on the content and timing of the Charter revisions, the need for holding the annual Meeting of Members, election of the new Board, and other issues that needed to be addressed by APLR, in accordance with CA and other requirements. The Action Plan was subsequently implemented by the APLR during the months of August and September.

ACHIEVED

- 1.3.3 Training plan for professional development of APLR staff, end of Month 5

Status: During the course of the many discussions held by APLR management and staff during August and September, it became clear that the APLR's professional development needs are closely related to, and dependent upon, the strategic mission of the organization. However, the articulation of the APLR's Strategic Mission must be based upon in-depth discussion by APLR members, management and staff, and must be reflected in a long-range plan for APLR's organizational development. This activity is planned to happen in November/December, following a series of facilitated workshops involving all interested parties, and will yield a Strategic Plan for APLR Organizational Development (see Target 1.3.4, below.) The Professional Development Training Program for APLR staff will be consistent with and incorporated into the Strategic Plan.

- 1.3.4 Strategic plan for APLR organizational development, end of Month 7.

Status: Beginning with the discussion of the new Charter of the APLR, and membership and board meetings held in August/September, the conditions have been set in motion to develop the long-term organizational development strategy for APLR. It is now expected that this Plan (which will incorporate the Staff Training Plan) will be prepared in draft form in Month 8 (December), for final delivery in Month 9

1.4 Land Privatization, Legal Reform, and Land Market Development Support:

In support of the Legal Sector of the APLR, specialized support and advice from foreign land reform and legal experts on aspects of land privatization, land law reform, and land market development will be provided.

Foreign Legal Expertise. A Legal Advisor, TBD will be scheduled to work with the Legal Sector on state agricultural land privatization, and the development of options for land market transactions involving family owned agricultural land. Rolfes' first TDY was initially scheduled for September. However, it was postponed without a date certain, due to the travel disruptions ensuing following the WTC disaster on September 11th, 2001. Moreover, recent parliamentary maneuvering in Georgia has resulted in a suspension of substantive legislative action and a shifting of political factions. Thus, it will be advisable to postpone the Legal Advisor's TDY until conditions are more favorable for substantive input.

Case Study of Land Distribution Conflicts. Work has already been done to help the APLR devise ways to resolve problematic situations where SDLM (State Department for Land Management) land arrangers improperly conduct land distributions (example of Dighomi). During August, the Resident Advisor and the APLR Director met with local residents, NGO representatives and local officials at the Governor's office in Mtskheta, to explore potential resolutions to the problems. During his TDY in September, David Stanfield and APLR staff conducted further investigations of the current conditions in Dighomi. Included in this activity were meetings with the World Bank-funded LRU and their local subcontractors, who are attempting to ascertain the history of land transactions in the community. It is expected that the Dighomi experience will be documented by APLR at an appropriate time, to serve as a case example of how to document and resolve instances of fraud and corruption in local land distribution.

Training for Registrars and Notaries. Work also has been done to define the APLR policies concerning the access of Registrars, other government agencies and NGO's, and private companies to land information which the APLR produces or acquires. A national meeting of Registrars is scheduled for October, and will be carried out in close cooperation with the SDLM Chief Registrars' office. The purpose of the seminar is to explore such issues as:

- Public access to Registry data
- Costs and other impediments to wider use of Registry information
- Training needs of Registry staff
- Registration procedures, including the proper role of Notaries in effectuating property registrations and subsequent transfers
- Physical needs of Registry offices
- Data collection procedures for creating a centralized data base of Registry activity

A series of follow-up meetings with Registrars at the regional level is also planned for late 2001/early 2002. Similarly, APLR will cooperate with the Georgian Chamber of Notaries in holding a series of training seminars throughout the country to advise and instruct Notaries on the proper way to document and record real property transactions of all kinds.

Donor Coordination. Donor coordination occupied a significant portion of staff time during the Work Program # 2 period, involving APLR, SDLM, KfW, World Bank, and UNDP. With respect the KfW project, a number of meetings were held with a view to reduce possibilities of overlapping and conflicting work activities. KfW will provide APLR with orthophotos of all rayons (as they are produced) and APLR will overlay the blocks of reform land which have been surveyed by the LMPD (and the predecessor Booz-Allen project.) This will permit easy identification of land parcels which may have been overlooked by either APLR or KfW subcontractors, and will indicate any parcels which may have been mistakenly surveyed by both projects.

APLR will clearly instruct its subcontractors not to survey residential lands in towns and villages (as has occurred in some instances) since this work will be undertaken by KfW subcontractors. However, in certain rayons where KfW is not planning to work, APLR will undertake to survey and register both reform and residential land parcels.

With respect to the consolidation of APLR and KfW data, a test will be run, using the UNDP software, to integrate the two databases in the Telavi district. This test is expected to be performed during Work Program period #3.

A series of meetings and exchanges of comments and other memoranda was conducted to review the proposed work plan of the proposed new phase of the World Bank project. In particular, the APLR and others expressed concern regarding the plan to centralize title registration functions in a limited number of regional offices. Under the strategy supported by APLR, rayonal registration offices would continue to be the official locus for land registration. Information from rayonal offices would be consolidated, however, in 10-12 regional "Data Service Centers" that will be connected electronically with the rayons and with the central office of SDLM. This approach would preserve the benefits of decentralized registration with the benefits of centralized data storage and retrieval. Following extensive discussions, this concept was accepted as a working approach by the World Bank team, and it was further agreed that any change from this system would be adopted only after further statistical review and policy discussion among all interested parties.

Policy Dialogue. Other significant policy options that were discussed during Months 3-5, and which will be further developed in the coming months include:

- How to transform Registry Offices into an independent, self financed agency within 3 years, with staff salary subsidized from central budget for that period as needed;
- How to integrate BTI (Bureau of Technical Inventory) information, some staff, and Rayon office space into the Registry Office structure, and how to avoid duplicate and/or other unnecessary charges by the BTI during initial registrations and secondary transactions;

- How to conserve both paper and digital records, when to do which, and role of digital information as archival information until market conditions warrant the switch of some offices to digital technology;
- How to resolve potential conflicts in approaches to initial registration of ownership (i.e., registration of 'households' vs. registration of all household members);
- Resolution of problems of inheritance, and clarification of the process of transfer of ownership upon the death of a registered owner of land; and
- Use of World Bank and other donor refurbishing money to provide priority support to rayonal Registry Offices and then to regional information processing centers.

Regional Cooperation. At the suggestion of Eurasia Foundation, APLR will explore the opportunities to forge working relationships with other NGOs active in land use and real estate market development issues in Armenia and Azerbaijan. If sufficient common interests can be identified with suitable groups, an application will be made to Eurasia Foundation for financial support of a program of regional policy dialogue and research.

1.5 SRO Development Support, and Association Formation

As originally envisaged in the CA, an umbrella SRO, linking the APLR and several newly formed real estate market professional associations, could be structured in a way that would allow for a synergistic relationship among the various associations to develop, such that the professional associations would benefit from APLR lobbying, legal/policy advice and public education support. Similarly, APLR would benefit from the financial assistance the professional associations will render to it.

The validity of this premise has been the subject of research by an in-house Team of APLR staff, and by Norman Flynn president of the International Real Property Foundation, a noted Realtor/Valuer, and an expat expert on real estate industry professional Associations who has worked extensively with professional groups in Central Europe and the former Soviet Union.

Targets of the CA:

1.5.1 Completion of in-depth assessment of Georgian real property and appraisal industry in Month 5

Status: The findings to date have led to a reconsideration of the original SRO Development concept, summarized above. As noted by Mr. Flynn, "The problems and constraints to developing real estate associations in Georgia are more formidable than expected. Both the real estate brokerage and appraisal communities in the country are relatively underdeveloped in terms of numbers, sophistication and effectiveness, and the associations exist largely on paper."

Other professional groups (such as auctioneers, property managers, land surveyors, real estate developers, Registrars, etc.) are even less well developed in their understanding of the need for and benefits of forming a professional association for achieving such common purposes as:

- adopting and enforcing a professional Code of Ethics,
- developing continuing education programs,
- developing standard contracts and other forms,
- publishing professional journals and similar materials for use by members,
- preparing and advocating legislative initiatives of benefit to their members, and so on.

As a result of the assessments conducted in Months 4 and 5 by the in-house SRO team, as well as by the expat expert, Norman Flynn, it will be advisable to reconsider some aspects of the original SRO concept. The potential changes will be summarized in the Post-assessment report (see below.)

ACHIEVED

1.5.2 Post-assessment Report with recommendations for program activity, in Month 5.

Status: Pursuant to the findings of the assessment of the Georgian real property and appraisal industry, Terra Project Director David Stanfield has drafted a revised set of recommendations for elaborating a detailed program of professional association development. In the LMDP, the idea is to take a more “grassroots” approach, building the professional associations and the APLR step by step, using a “two-path” model.

Path 1 will involve the development of the APLR. Activities on this path would strengthen the capacities and scope of the APLR, through diversification of funding, management training, membership mobilization, and provision of services to the landowning public and to the professionals who also provide services to the landowning public.

Following this path, the APLR will structure its membership to include landowners, public servants, and land market professionals as well as bankers and insurance companies. In essence, the APLR becomes the “SRO Umbrella” organization.

The APLR is looking carefully at what constituents it is serving and build an organization that would provide programs, products and services to those constituents. Some constituents that appear to be well within their mandate would be as follows:

- Farmers
- Landowners in general
- State agencies involved in land administration
- Public utilities
- Entrepreneurs/developers or occasional builders
- Bankers interested in mortgage financing
- Land market professionals (see above)
- The World land planning community (World Bank, United Nations, Eurasia Foundation, etc.)

In terms of financial sustainability, there should also be dues for all members. At least some dues payment by its members would demonstrate more serious commitment to the organization, as well as provide financing for organizational development.

In addition, the association should expand its membership to involve and embrace all the constituencies they hope to serve. Revenue models should be developed with each of these constituencies to generate income for the future self-sustainability of the organization. It appears that the best sources of income would be membership dues, service fees (from various publications and information bulletins, reports, programs and products), and lastly grants from grantor organizations throughout the world, including a reasonable “indirect cost” rate for helping to finance the costs of maintaining the organization.

A good possibility would be to build a grassroots organization under APLR not unlike the “Farm Bureau” in the United States which has chapters throughout all of rural America that deal with agribusiness issues, legal issues and legislative process. The U.S. Farm Bureau also has developed a substantial source of non-dues income through various activities, specifically insurance programs.

In terms of its strategic and business planning assistance, therefore, the LMDP (through the IRPF and Terra as well as with the assistance of the specialists of the APLR and other Georgian professionals) can help APLR carefully define its constituents, develop programs, products and services that the constituents find of value and develop revenue sources to underwrite the costs of future ALPR activities (i.e. membership dues, service fees and grants/contracts).

Path 2 will encompass the development of related Land Market Professional Associations. Where there is a demonstrated commitment by professional groups to the formation of professional associations, and through extensive consultation and testing of their resolve, The LMPD will provide training and advice on the strengthening of the association. Only where a clear and short term need exists, however, would LMPD provide financial support.

Bridging these two paths are the common members of the APLR and the members of the professional associations who shape coalitions on specific issues.

The LMDP program of real estate association development, with the participation of specialists from the IRPF and APLR’s Secondary Transactions Sector, should begin with basic assistance in such areas as: mission definition, leadership development and mobilization and consensus building. As an extension of these activities and as a consensus is forged, each association will develop strategic and business plans.

The APLR could create a **Real Estate Brokers** “chapter” in its membership structure, for those brokers in Tbilisi and throughout the country who have worked with the APLR, who demonstrate an interest in collaboration with other professionals in the

proper functioning of land markets, and who the APLR could recommend to others as competent and reliable brokers.

An **Appraiser** Association has been formed, and appears to have adequate support from the Eurasia Foundation. At this time, no further support through the LMPD project appears warranted

The **Real Estate Developers** appear to be too small a group at present to consider for association development.

Property Managers are also too small a group at present to consider for association development.

Due to the small number of professional **Auctioneers**, and their specialized functions, there will be no capacity for developing a separate association. To assist with the privatization programs which are ongoing, the APLR will develop a training program to be offered to these individuals in order for them to acquire a professional certification of their having passed that training program. The cost of preparing the training materials will be paid by the LMDP, but fees paid by the participants will cover the cost of conducting the training.

Notaries are already well organized in the national Chamber of Notaries. They do not require active support, except for a training program that APLR will develop in conjunction with the Chamber. The financing of that training program has yet to be finalized.

Land Surveyors constitute another group that could form an effective professional association, if the interest to do so exists. A list of all cadastral land surveying companies and their technically qualified staff will be compiled from the lists of subcontractors having performed adequately in the conduct of cadastral surveys for the USAID, GTZ, UNDP, KfW, World Bank, and SDLM. An assessment of the identified individuals will be conducted to determine the interest in and need for a land surveyor association, and what services that association would provide to its members.

In the meantime the APLR could open a "land surveyors chapter" in its membership structure, for those individuals and companies whom the APLR certifies as having performed well as cadastral surveyors, and who could be recommended to perform similar services for others, and who would have access to APLR training programs in cadastral surveying and related techniques.

Finally, **Registrars** are another group that would benefit from some form of formal professional association, although their status as employees of the SDLM must be recognized in any effort to create such an association, or union.

Since registrars presently are under the control of the SDLM offices, at the first stage it would be necessary to hold several seminar conferences with registrars. Issues

raised would include economic independence for the registrars and how at the same time there would be guarantees that they would carry out the public service of registration of transactions in a professional way. Such gatherings should be held, until the Parliament introduces amendments and additions to the budget Law, as result of which registrars shall obtain economic and political independence.

It would be desirable to advise to registrars, at meetings, to form a professional union, which will take care of protection of their rights and independence. Through establishment of such an organization, the struggle against state bureaucracy regarding granting of independence to registrars will be much easier.

A “Registrars Section” could also be created within the APLR membership structure for those Registrars who are interested in developing working linkages with other land market professionals.

1.6 Resident Advisor Support:

David Smith continued to provide full-time Resident Advisor duties to the APLR during the Work Program #2 period. David Stanfield, Terra Project Director, continued to participate actively in key project activities, and also was present in country on TDY during the Work Program # 2 period from September 22 – 30, 2001.

1.7 Monitoring and Quality Control:

During Month 5, APLR created a new sector dealing with performance monitoring and quality control of initial and secondary transactions subcontractors. Inspections will be carried out monthly and includes direct inspection of work, identified during submission of invoices by particular subcontractor, e.g. quantity of registered cadastral maps or the level of quality of field works due to their large volume. The number of parcels to be inspected is determined at 1-2% of the volume of work to be inspected.

General inspection will be held twice yearly in all rayons, and results of work performed in the rayon will be inspected from the point of view of both quality and quantity. During General inspection, quality control will be carried out through direct inspection of 1% of all of the materials existing at the office of the subcontractor and registrar. Works conducted by the previous (Booz Allen) project are also subject to this inspection.

Based on the invoices submitted to the office, the field control team, periodically, at the end of each month, will compile a list of rayons to be inspected during the following month. The lists will be agreed to by the APLR and Project management.

Blocks and parcels to be inspected will be selected based on the electronic and schematic data (crock with detailed description) submitted by subcontractors to the central office, and their cadastral maps will be printed out, showing parcel numbers and detailed description of

surrounding situation. List of owners of the parcels in the blocks to be inspected will also be printed out.

Once in the field, the field control team will, first of all, collect and inspect the information existing at the office and, based on this information, will carry out control of performed field works. This will include: determining the quality of surveys of parcel boundaries, dimensions, area, roads, servitudes, reference measurements, traverse measurements and map characteristic points.

During inspection of field works, the control team will inspect the field journal, which should include detailed information on all of the field procedures. The journal must be filled out legibly, the crock sketch should contain full information with location description, standpoints and reference points, should have an index and name of the location must be indicated. With the journal should be attached a list of owners of the parcels existing in the block.

After field inspection, information existing at the subcontractor's office will be checked. The subcontractor's offices will house the cadastral maps, sketches provided by land arrangers (signed by the rayon land arranger), registration cards, tax and land distribution lists, RDA numbers, and landowner applications. Digital versions existing on the blocks will also be inspected.

After conducting the inspection procedures, the field control team will complete field and office inspection forms. Once inspection in each rayon is completed, a report will be written on the situation existing in the rayon. At the end of the month, a summary report will be prepared on all inspections performed during the month, and submitted to the APLR and Project management.

2. APLR OPERATIONAL PROCEDURES AND ACTIVITIES:

The APLR's scope of work is to carry on the registration of ownership rights to approximately 1,130,000 agricultural parcels and 270,000 residential parcels, to continue with public education and land market policy work, and to develop a program for SRO formation and a pilot effort for services to mediate among conflicting parties and to resolve legal difficulties of property owners.

The following work has been done on the various responsibilities, activities and targets as specified in the CA and the subagreement between APLR and Terra Institute.

2.1 Registration of ownership rights to approximately 1,400,000 rural land parcels and issuance of registration certificates to evidence those rights;

Targets of the CA:

2.1.1 500,000 parcels will be registered by the end of Month 8

In order to achieve the above target, the initial registration sector studied the number of land parcels existing in Georgia by rayons. A list of the rayons was determined in which the project would be able to work. As a result, 51 rayons were confirmed, and work is proceeding on the initial registration of the total of 1.4 million land parcels, as well as issuance of registration certificates.

Status: During Work Program #2, approximately 200,000 certificates were issued. During the current Work Program #3, another 330,000 certificates are expected to be issued, which will satisfy the Month 8 Target.

- 2.1.2 1 million parcels will be registered by the end of Month 16

Status: (See above)

- 2.1.3 1.4 million parcels will be registered by the end of Month 24

Status: (See above)

- 2.1.4 Professional personnel will be identified for the new rayons by the end of Month 2

Status: Professional employees were selected for both the initial registration sector and the secondary transactions sector. The term “professional employees” refers to the subcontractor companies, which will carry out the works of the Land Markets Development Project in 51 rayons, based on individual contracts. Duties of the sector of initial registration included preparation of all the necessary documents for conduction of the tender selection procedure. Administrative sector and initial registration sector of the project elaborated the necessary documents and announced a tender for all of the 51 rayons. The tender was conducted in two stages: invitation of private companies for evaluation of their qualification and the second stage – conducting of the tender itself, with participation of the companies that were evaluated positively during the invitation. All tenders were completed and winning bidders selected in July (Month 3). With the exception of two rayons (Kaspi and Khashuri) where the SDLM has requested a delay in order to resolve potential conflicts with companies previously under contract to SDLM, subcontracts were executed in July by APLR with all other winning subcontractors.

ACHIEVED

- 2.1.5 Training of new rayon personnel completed by Month 3

Status: Training was provided by APLR to the employees of the subcontractor private companies, chosen through the above tender, in conducting of field geodesic work, and in use of computer software. APLR's IT (Information Technology) specialists developed new software and a related training course, in consultation with the Initial Registration sector staff. Following the training program, this software package will enable the subcontractors' employees to digitize field measurements and to print the necessary registration documents.

ACHIEVED

2.2 Development of a secondary market for both enterprise and agricultural reform land

Scope and status of the secondary transactions real estate market. As a base statistic, it must be recognized that, as of today, only 30% of Georgia's land resources have been transferred to private ownership. In addition, according to data collected by us from October 1998 through September 2001, 10,013 *enterprise land* parcels have also been privatized and registered in the Public Registry.

During that same period, 6,980 land/real estate sales transactions have been registered in the Public Registry, of which 3,009 are non-agricultural lands, and 3,971 are agricultural land parcels.

Besides gifts and inheritance of property interests, there have been 4,457 mortgage transactions identified in the Public Registry. Of these, 3,898 are urban land parcels, the largest share of which (2,418 transactions) are situated in Tbilisi. Mortgages of agricultural reform land parcels total only 284 transactions.

Transfer of land and other real estate from state to private ownership creates a fundamental pre-condition for attracting investment. Funds received on the basis of a mortgage agreement allow landowners to update their equipment, buy raw materials, and expand their industry or industrial process.

The right of private ownership of real estate and the ability to pledge it against a loan is thus an important factor in securing loans from banks or other investors. Stage by stage, the interests of banks have grown, and landowners will increasingly be able to make use of land parcels and other real estates as a collateral to acquire loans.

However, the fact that 90% of mortgage consummated in Imereti region are situated in Kutaisi, and 81% of all loans given out throughout Georgia are situated in Tbilisi. This indicates that there is comparably higher liquidity of real property in larger cities. By contrast, the rather small number of mortgage credits issued on agricultural lands clearly indicates the lower interest of banks in financing agricultural land parcels. For the large banks of Georgia, mortgage loans issued on non-agricultural land parcels are clearly more effective and profitable than accepting a small land parcel as a guarantee for mortgage loan.

Nevertheless, sales of land parcels in villages is developing rapidly, and often involves the consolidation of smaller parcels into larger, more efficiently farmed parcels. This consolidation tendency is especially characteristic to Kakheti region. A market-driven process of natural redistribution has thus started. Further, in rural villages there are many cases of transferring land parcels by lease, even though the agreement between two private persons is made verbally and the transaction is not registered in a Public Registry. According to information obtained by the secondary transactions' sector, up to 40% of all reform land parcels in private ownership are leased.

The tendency of rising prices for agricultural lands is another clearly noticeable factor. According to the data of last three months, the price of land per hectare has risen by approximately 25-50%.

Conclusion. Taking into consideration the above data, we can only conclude that the development of a secondary land market has already started in Georgia. However, the Land Reform process and the resulting transfer of land into the private ownership is a crucial but insufficient condition for full development of a vigorous land market. It is necessary to activate the agrarian sector, the housing market, and private enterprises as economic drivers in order to be in a position to generate a level of demand that will support a dynamic and growing land/real estate market.

Recommendations. Following is a preliminary and incomplete list of measures to be undertaken for facilitating land market development in Georgia:

- Reduction of confiscatory tax rates;
- Increasing accessibility of information, including greater ease and freedom of access to data in the Public Registry;
- Expanding limited possibilities for land usage;
- Establishing sophisticated mechanism for property appraisal and other services needed to support the sales and mortgages markets;
- Establishing and developing professional associations for brokers, auctioneers, appraisers and other professionals that represent active participants of the market;
- Encouraging active participation of insurance companies in the credit market.

Targets of the CA:

In this sector, as in the initial registration sector, the conduct of work at the rayon level will occur through private subcontractor companies. Acceleration of the land market development by the project depends on the strategy elaborated by the project and on productive work by these companies. Actual selection of subcontractors and execution of contracts were finalized in Month 3.

ACHIEVED

2.2.1 Increase in secondary transactions by 10% at end of Month 14

Status: At the same time with the tender works underway in the sector, work was done on assessment of the current situation on the land market. In particular, we began a study of the land market statistics: what is the number of transactions on land or other related real estate. Data of this study will be used as initial information at the beginning of the project, in order to determine indicators of the land market, and as a baseline benchmark, in order to measure the impact of the project on the total number of secondary transactions that are registered due to the work of the Project subcontractors.

2.2.2 Increase in secondary transactions by 20% at the end of Month 24

Status: *(See above)*

2.3 Support and assistance for the privatization of state-owned agricultural land

Targets of the CA:

- 2.3.1 Analytical Report on needed legislation, regulations and other legal needs at the end of Month 6

Status: Work is proceeding on this report, which is expected to be completed by the end of Month 6.

- 2.3.2 Draft legislation, regulations and other legal instruments as needed

Status: The APLR, with participation of lawyers of the Land Markets Development Project, has elaborated a draft Law on Privatization of Agricultural Land Existing in State Ownership. The indicated draft Law has been submitted by the Georgian Parliamentary Committee on Economic Reform to the Parliament for consideration. Close cooperation in this issue has been achieved also with the Agrarian Committee of the Parliament. Discussion by Parliament is planned to begin at the autumn session of the Parliament. The APLR's legal team, while using the Parliament and Chancellery office, is monitoring the discussion of this issue in Parliament. Close cooperation needs to be maintained with the Parliamentary Committee on Economic Reform and the Agrarian Committee, so that the draft Law is considered at the autumn session of the Parliament and adopted in its current version.

2.4 Provision of public education support for land reform;

Targets of the CA:

- 2.4.1 Materials for bulletins, two radio and two television programs will be prepared by the end of Month 6

Status: In August, a tender was prepared and held for identifying a company to produce a series of four TV programs about the Project. The independent studio TBC-TV won the tender. Over the course of one year, TBC-TV will prepare four programs, which will be broadcast by the First Channel of Georgian Television. The four programs will each be based on one of the main themes of the LMPD: initial registration, secondary transactions, legal/administrative impediments to the enjoyment of private property rights, and resolution of land use conflicts.

Since the reach and impact of TV shows are greater than radio, it was decided to produce four TV show, rather than two, and to eliminate the two radio shows from the program.

With respect to printed bulletins and other materials, it is considered that LMPD should be in a position to sell information booklets addressing various issues of real estate law, procedure and property market development. Such booklets, by their very

content, are aimed at wide masses of the population, as well as at real estate agencies that lack the experience and relevant knowledge to work effectively in this sphere. Therefore, there should be a broad market demand for such booklets.

Affordability of the booklet, topicality of the issue, and the large number of potential consumers should lead to a successful conclusion of such a venture. During the press conference, to be held for journalists, we will be able to spread information about existence of such a booklet and where it is possible to buy it. Funds received from realization of the booklet can be used to help fund the production of additional booklets, or to further other LMPD goals.

Among the types of publications being considered, or already in preparation, are the following:

- an APLR/LMPD newsletter, which will be widely circulated, and could be a precursor for a more formal newspaper to be published by APLR as a revenue producing measure
- a manual on land (real estate) title registration procedures
- a booklet on how to protect one's interests and rights during the sale of real estate
- a brochure on land taxes
- a digest, or glossary, of land market terminology

2.4.2 A minimum 10 public meetings will be held every six months.

Status: Although the need to focus LMPD staff and resources on the project start-up activities during the first Work Program periods has made it unlikely that the ambitious target of holding 10 public meetings will be reached by the end of Month 8, the public education sector has initiated a series of activities to enlarge the awareness of citizens and public officials to the process of land title registration. Some of the principal activities are summarized below.

Survey of Landowners. In July/August, in the Imereti region, a public survey was conducted in connection with land reform. The purpose of the survey was to gauge and clarify public opinion regarding how accurately the LMDP's strategy has been planned, and how well the programs respond to the problems and issues uppermost in the minds of the public. As result of analysis of the telephone calls and questionnaires submitted to the APLR, five key issues have been identified for attention during the coming months of the LMDP, as listed below:

- Taxes
- Land parcel distribution procedures
- Boundary disputes with neighbors
- Infringement of landowner rights by local officials
- Bequeathal of land parcels

Kutaisi Seminar. In late August, Information generated as a result of the above survey became the basis for planning of a public seminar for journalists, entitled “Development of Land Registration and Land Market in Georgia.” This seminar was also well attended by local citizens, notaries and officials. It is expected to increase the level of awareness of journalists, and lead to their becoming more interested in problems of the land market. By providing a measure of background information that journalists would not otherwise have access to, the quality of news coverage should be greatly enhanced. This, in turn, should increase the level of public information dissemination. Eighteen persons, representing various types of mass media, were invited to the seminar. Also, in connection with the seminar, meetings were held and consultation provided to representatives of local banks and insurance companies.

Countering False News Reports. Registration works underway in Kakheti region were negatively evaluated in the newspaper Rezonansi. An investigatory Commission comprised of representatives of APLR and the local and central SDLM offices was then formed and after investigation of the charges in the field, the Commission issued a unanimous finding that the charges lacked any truth or foundation. In connection with this, the public education sector ensured that authors of the article took part in work of the Commission and later there was held a press conference. The press conference was attended by a wide range of journalists, heads of the APLR and SDLM who talked about procedures of initial registration of land, and explained how the rights of landowners are protected.

2.5. Develop policy and support the legal and regulatory framework to promote land markets and landowner rights.

The Legal Sector has developed amendments and additions to Laws on Land Registration, and on Land and Related Immovable Property State Registration Fees. The Legal sector has also provided consultations to the Parliamentary Committee Economic Policy on various issues. Introduction of amendments and additions to the Laws serves the purpose of assisting development of land and real estate markets.

During the Work Program #2 period, however, relatively little action was taken by parliament on pending matters of legislation, due to the summer holidays (in July/August) and the growing political fragmentation in parliament in September as the government gradually lost control over the parliamentary majority. As a result, few parliamentarians concentrated on legislative, as opposed to political, issues during this period.

The Legal sector did turn its attention to matters of administrative concern, such as planning the national meeting of Registrars, and developing a strategy of training seminars with the Chamber of Notaries. These activities are essential elements of properly and fully implementing the provisions of law contained in previously enacted statutes.

Legislative activities

Draft Law developed by the legal team on introduction amendments and addition to the Law on Land (Real Estate) Registration serves this purpose.

One amendment reduces to the maximum extent the time-terms for issuing extract from public registry book and time-terms for registration of alienated property. According to the draft Law, which was presented, time-terms for issuing extract from public registry book is 48 hours. Based on this amendment, registrars will not have the right to delay or refuse to issue the extract from public registry book. Proceeding from this draft Law demanding an extra fee for issuing extract from public registry book will be meaningless as the minimal time-terms for issuing documentation and registration will be directly defined in the Law.

Another draft Law prepared by the legal team introduces amendment to the Law on Land and Related Immovable Property State Registration Fees.

This amendment mainly concerns fees for registration of non-agricultural land. According to the above-mentioned Law, initial registration is free of charge for privatized land based on so called Law on Declaration. This means that according to current legislation, initial registration of entrepreneurial and commercial land is free of charge, but there is fee to be paid by citizens that own individual dwelling houses in the cities or apartments in multi-story buildings. According to the amendment drafted by the legal team, initial registration will be free of charge for non-agricultural land on which individual houses and multi-storey apartments are located.

Legal team also drafted modified version of amendments and additions to the Law on Budget System and Budgetary Authorization.

According to the proposed amendment, land registration fees will be fully transferred to the bank accounts of City (rayon) Departments of Land Management. Purpose of this addition is to encourage registration offices to register rights on land and related immovable property using fast and non-bureaucratic procedures.

2.6 Support the development of professional associations:

Targets of the CA:

Within six months of organization and registration of the umbrella SRO, the APLR and Terra will develop a strategic plan for commercial viability of the umbrella SRO and begin implementation of the plan. At the completion of the two-year project, it is expected that the umbrella SRO will be near commercial viability and will require limited foreign technical and financial assistance. This will include revenue-generating capacity from a range of activities other than membership fees, i.e. certification programs, licensing, etc.

Status: APLR has established an SRO Team, consisting of representatives from several sectors, to work on this issue. Each member of the Team represents a certain professional direction and as a group, they are ready to elaborate and develop the indicated professional unions to support the development of the land market in

Georgia. To date, statistical data have been collected and analyses performed to explore the willingness of several professional groups to form the desired associations. These groups include: real estate brokers, land surveyors, appraisers, auctioneers, real estate developers and registrars. (This final group consists of state employees, and thus its development as a formal association presents special legal and administrative circumstances that will have to be taken into account.)

Development of the various professional associations is planned in two phases. The first phase involves further assessment of the current situation; determining whether similar organizations are already established and working effectively; and evaluating whether key professionals are willing to undertake the considerable work required to organize (or reorganize) a functioning professional organization. In the second phase, working with such groups (or individuals), a strategic vision, membership recruitment programs, related business plans, and initial operating budgets will be elaborated. Once such background material is in place, the LMDP will assess how to assist the associations to raise additional needed funds for the initial operations period. It is assumed, however, that a significant portion of operating revenues will come from members' dues and donations, even in the earliest days of the association.

3. CONCLUSIONS, RECOMMENDATIONS AND REQUESTS FOR ASSISTANCE

3.1 Technical Aspects of the CA

3.1.1 Expatriate Technical Assistance during this reporting period included:

- a) Mr. Robert Cemovich (Stewart International Title Insurance) – Title registration expert
July 6 – July 12
- b) Mr. Norman Flynn (International Real Property Foundation)– Realtor/Valuer, Auction Association Advisor
September 8 – September 16, 2001
- c) Dr. David Stanfield – Project Director and NGO/SRO Development Advisor
September 22 – 30, 2001

3.1.2 Expatriate Technical Assistance programmed for the upcoming reporting period will include:

- a) Dr. David Stanfield – Project Director and NGO/SRO Development Advisor
October 1 – 7; November 1 – 10, 2001

- b) Mr. Norman Flynn (International Real Property Foundation)– Realtor/Valuer, Auction Association Advisor
November 28 – December 2, 2001 (tentative)
- c) Bill Malkasian (International Real Property Foundation) – Association Development Specialist
November 28 – December 5, 2001 (tentative)
- d) Mr. William Thiesenhusen (Terra Institute) – Land Market and Land Reform Advisor.
December 1 – 15, 2001 (tentative)
- d) Legal Advisor(s): name(s) and travel dates TBD, with travel to occur during the months of November 2001 through January 2002. (Mr. Leonard Rolfes, formerly identified as Legal Advisor to the LMPD, is unwilling at this time to travel to Georgia, due to unsettled conditions existing internationally. Terra Institute, Ltd is in the process of identifying a replacement expert or experts to fill this role, and will advise the CTO as soon as a firm decision is made.)

3.2 Financial Aspects of the CA

USAID authorized the obligation of additional funds during Month 4.

The Chief Financial Officer has submitted the quarterly Financial Status Report (SF269a) as required to the appropriate USAID office. The CTO has requested copies of this report and this request will be accommodated.

3.3 Conclusion

Other than the need to re-evaluate the SRO development strategy, discussed at length above, no unexpected or untoward problems were encountered during the second Work Program period, and no exceptional need for assistance has arisen.